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Message Text

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ACTION EUR-25

INFO OCT-01 EA-11 ISO-00 SCEM-02 AGR-20 CEA-02 CIAE-00

COME-00 DODE-00 EB-11 FRB-02 H-03 INR-10 INT-08 L-03

LAB-06 NSAE-00 NSC-10 PA-04 RSC-01 AID-20 CIEP-02

SS-20 STR-08 TAR-02 TRSE-00 USIA-15 PRS-01 SPC-03

OMB-01 SCI-06 NEA-10 DRC-01 ACDA-19 /227 W
---------- 019473
R 041739Z JAN 74
FM AMEMBASSY LONDON
TO SECSTATE WASHDC 6802
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY COPENHAGEN
AMEMBASSY DUBLIN
AMEMBASSY LUXEMBOURG
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY THE HAGUE
AMEMBASSY TOKYO
USMISSION EC BRUSSELS
USMISSION OECD PARIS

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DEPARTMENT PASS TREASURY AND FRB

E.O. 11652:N/A
TAGS: EFIN, UK
SUBJECT: PART-TIME BRITAIN; THE FIRST WEEK; SITUATION AND
COMMENT

REF: LONDON 14808

BEGIN SUMMARY: CONFUSION, AMBIGUITY AND GLOOM APPEAR TO BE
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THE MAIN RESULTS OF THE FIRST 3-DAY WEEK OF THE PRESENT

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BRITISH CRISIS. THE ECONOMY IS SLOWING DOWN, UNEMPLOY-
MENT HAS RISEN DRAMATICALLY, AND SHORTAGES ARE DEVELOPING.
DISCOMFORT AND ANOMALIES ARE ABUNDANT WHILE THE MINERS
AND THE COAL BOARD, AND THE TRAIN ENGINEERS AND BRITISH
RAIL APPEAR TO BE MAKING NO PROGRESS IN RESOLVING THEIR
CRIPPLING INDUSTRIAL DISPUTES. IN THE COAL INDUSTRY,
MINERS ARE IMPLICITLY PUTTING FORTH A CASE THAT THE PRICE
OF THEIR LABOR DOES NOT REFLECT THE INCREASED MARGINAL
VALUE OF THE COAL PRODUCED NOW THAT OIL IS SO EXPENSIVE.
THE ECONOMIC AND SOCIAL IMPACT OF A LONG SIEGE (OVER 45-
60 DAYS) WILL BE SEVERE, BUT ITS FULL DIMENSIONS ARE NOT
FULLY UNDERSTOOD, EVEN BY ECONOMISTS IN GOVERNMENT AND
INDUSTRY TRYING TO APPRAISE THE SITUATION. END SUMMARY

1. THE BRITISH ECONOMY IS OBVIOUSLY SLOWING DOWN IN THE
FIRST 3-DAY WEEK. ABOUT 730,000 WORKERS HAVE REGISTERED
FOR UNEMPLOYMENT INSURANCE SO FAR THIS WEEK, AND SEVERAL
MILLION MORE ARE BELIEVED TO BE WORKING PART-TIME BUT
BEING PAID FOR FULL TIME UNDER UNION CONTRACTS. THERE
IS INCREASING EVIDENCE OF SHORTAGES AND REDUCED DELIVERIES
INCLUDING SMALL CUTBACK IN PRODUCTION OF BREAD TO SAVE
FLOUR AND FUEL. HOWEVER, THE UK TREASURY, THE CONFEDERA-
TION OF BRITISH INDUSTRY (CBI), THE NATIONAL INSTITUTE OF
ECONOMIC AND SOCIAL RESEARCH (NIESR) BELIEVE IT IS IM-
POSSIBLE AT THIS TIME TO ASSESS THE DAMAGE OF THE SHORT
WEEK. THE EMBASSY AGREES. ALL THESE OBSERVERS BELIEVE
THAT IF THE CRISIS IS RESOLVED QUICKLY AND COAL PRODUC-
TION AND RAILWAY SERVICE RESTORED SO THAT THE 3-DAY WORK
WEEK LASTS LESS THAN 45-60 DAYS, THE DAMAGE WILL BE
TEMPORARY AND NO MORE THAN A RIPPLE IN THE LONGER TERM
TREND. THIS IS NOT TO SAY THAT A QUICK RESOLUTION TO THE
PROBLEM WILL RESTORE THE BRITISH ECONOMY TO ITS PRE-"YOM
KIPPUR" POSITION. WE ASSUME THE PROSPECTS ARE THAT THE
OIL SHORTFALL WILL CONTINUE AND IN THE SHORT-TERM
WILL BE EXACERBATED BY THE COAL DISPUTE-SEE REF CABLE.
THIS, PLUS THE RAPID RISE IN OIL PRICES AND THE GENERAL
ECONOMIC SOFTENING APPARENT EVEN BEFORE THE OIL CRISIS
POINT, AT BEST, TO A YEAR OF NO GROWTH (NIESR
NOW BELIEVES GROWTH MAY BE NEGATIVE) AND MOUNTING INFLA-
TION (11-13 PERCENT). NONE OF THE ABOVE NAMED CONTACTS
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HAVE CONTEMPLATED THE PROSPECTS OF THE CRISIS CONTIN-
UING INTO A THIRD MONTH.

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2. PSYCHOLOGICAL EFFECT OF THREE-DAY WORK WEEK IS MADE WORSE BY LABOR PARTY CHARGES THAT IT IS UNNECESSARY AND A POLITICAL MOVE TO BRING PRESSURE ON THE MINERS TO END THEIR DISPUTE. THE PRESENT PICTURE IS MAINLY ONE OF CONFUSION, ANOMALIES, AND DISCOMFORT. IT IS NOT CLEAR, FOR EXAMPLE, HOW MANY WORKERS ARE ACTUALLY ON PART-TIME, FOR MANY HAVE CONTRACTS CALLING FOR FULL-TIME PAY WHICH WOULD
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PREVENT THEM FROM REGISTERING FOR UNEMPLOYMENT INSURANCE. THOSE WHO WORK THE FIRST 3 DAYS OF THE WEEK AND REGISTER WILL RECEIVE BENEFITS FOR THE TWO DAYS OF WORK MISSED, BUT THE WORKERS ON THE SECOND SHIFT (THURSDAY, FRIDAY AND SATURDAY) MAY BE ELIGIBLE FOR 3 DAYS' BENEFITS SINCE SATURDAY IS NOT A NORMAL WORK DAY. THIS IS STILL BEING DISPUTED. SOME COMPANIES ARE ALSO DISPUTING CLAIMS THAT THEY SHOULD GIVE FIVE DAYS' PAY FOR 3 DAYS' WORK. OF COURSE, THE IMPLICATIONS FOR INFLATION, INVESTMENT, AND EMPLOYMENT OF SUCH A PRACTICE BEING CONTINUED VERY LONG ARE SEVERE. EVEN THOUGH COMPANIES ARE VERY LIQUID AT PRESENT (GROSS PROFITS IN 1973 WERE UP BY 25 PERCENT) FIVE DAYS' PAY FOR 3 DAYS' WORK WILL PLACE MOUNTING PRESSURE ON COMPANIES TO RAISE PRICES, TO CUT BACK INVESTMENT PLANS, AND TO LAY OFF WORKERS COMPLETELY. FOR EXAMPLE, BRITISH STEEL, WHICH PAYS A GUARANTEED WEEKLY WAGE, IS REPORTED TO BE PLANNING TO RAISE PRICES SOON. IT HAS 226,000 EMPLOYEES ON THE GUARANTEED WEEKLY WAGE. UP TO 100,000 OF THESE MAY BE LAID OFF LATER THIS MONTH BECAUSE OF THE COST OF PAYING THE GUARANTEED WAGE WHILE PRODUCTION FALLS.

3. IT IS NOT CLEAR YET EITHER HOW MANY FIRMS ARE OPERATING THEIR OWN GENERATORS (USING THEIR OWN OIL) TO EXTEND THE WORK WEEK BEYOND 3 DAYS. THIS HAS BEEN ALLOWED BY THE GOVERNMENT. IT PERMITTED MANY SHOPS AND STORES TO STAY OPEN LAST WEEK INSTEAD OF CLOSING AS THEY HAD ORIGINALLY PLANNED. OUR CONTACTS HAVE NO INFORMATION YET ON THIS.

4. ANOTHER REASON FOR THE AMBIGUITY AND CONFUSION IS THAT BRITAIN IS JUST RETURNING TO WORK AFTER ESSENTIALLY AN 11-DAY HOLIDAY. MANY FIRMS ARE NOT STARTING UP UNTIL MONDAY, JANUARY 7. THUS, EVEN SHORT-TERM ASSESSMENT OF THE SITUATION IS DISTORTED.

5. THE MINERS DISPUTE--THE BASIC PROBLEM IN THE CRISIS--CONTINUES WITH NO SIGN OF PROGRESS. THE IDEA OF PAYING MINERS FOR "WAITING TIME" WHEN THEY DRESS, UNDRESS AND BATHE AT THE BEGINNING AND END OF EACH SHIFT HAS NOT BEEN APPROVED BY THE PAY BOARD (SEE SEPARATE MESSAGE). IT APPEARS TO MANY, INCLUDING THE EMBASSY, THAT THE LIMITED OFFICIAL USE

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MINERS ARE NOW IMPLICITLY ARGUING THAT THE PRICE OF THEIR LABOR DOES NOT REFLECT THE CURRENT MARGINAL VALUE OF THE COAL PRODUCED UNDER ASSUMPTIONS WHERE COAL WOULD BE LESS EXPENSIVE THAN OIL. THUS, WITH THE LATEST ROUND OF OIL PRICE RISES, THE MINERS MAY HAVE A VALID

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ARGUMENT. THERE HAS BEEN MUCH PRESS SPECULATION OF MAKING THE COAL INDUSTRY A "SPECIAL CASE." BUT HOW TO DO THIS WITHIN STAGE 3 PRESENTS GREAT DIFFICULTIES.

6. THE GOVERNMENT ANNOUNCED THAT ELECTRICITY CONSUMPTION IS DOWN BY 22 PERCENT AS A RESULT OF THE CUT-BACK IN WORKING HOURS. MANY STORES AND SHOPS ARE OPERATING BY DAYLIGHT OR WITH LANTERNS AND CANDLES 3 DAYS A WEEK. EVEN PUBLIC LIBRARIES ARE WITHOUT LIGHTS DURING PART OF THE WEEK.

7. OECD FIGURES ON THE IMPACT OF THE OIL PRICE INCREASES ON THE EXTERNAL UK SECTOR ARE THE BEST WE HAVE SEEN. THE BRITISH TREASURY IS CALCULATING EXTERNAL IMPACT OF THE RECENT OIL PRICE RISES, EXPECTS TO HAVE SOME IDEA BEFORE NEXT WEEK'S OECD SHORT-TERM FORECASTERS AND FOLLOWING WEEK'S WP-3 MEETING.

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